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Viewing cable 09KYIV2135, UKRAINE FOREIGN MINISTER'S CASE FOR IMF LOAN

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Reference ID	Created	Released	Classification	Origin
09KYIV2135	2009-12-15 12:47	2011-08-30 01:44	CONFIDENTIAL	Embassy Kyiv

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C O N F I D E N T I A L SECTION 01 OF 02 KYIV 002135

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E.O. 12958: DECL: 12/14/2019
TAGS: [EFIN](#) [EREL](#) [ETRD](#) [PGOV](#) [PINR](#) [UP](#) [XH](#)
SUBJECT: UKRAINE FOREIGN MINISTER'S CASE FOR IMF LOAN

REF: A. KYIV 2133
[1](#)B. KYIV 2130

¶1. (C) Summary. Ukrainian Foreign Minister Poroshenko described meetings with IMF deputy managing director Lipsky as "not constructive" and relations more generally with the IMF as "very bad". Poroshenko told the Ambassador on December 13 that he had weighed in with the Constitutional Court to strike down the IMF-criticized social standards law, and that he had asked the President to overcome his "politically motivated" opposition to the IMF Letter of Intent (LOI). Describing Ukraine's situation as "dangerous", Poroshenko said even a partial IMF disbursement would ensure payments to Gazprom and foreign creditors. End summary.

FOREIGN MINISTER DOWNBEAT ON IMF

¶2. (C) Foreign Minister Poroshenko told the Ambassador that, after meeting with IMF deputy managing director Lipsky in Washington on December 11, it was clear Ukraine's current situation was "dangerous" and relations with the IMF were "very bad". Talks with Lipsky over disbursing the IMF's fourth tranche were described as "not constructive".

¶3. (C) Addressing recent IMF-criticized legislation increasing social payments, Poroshenko told the Ambassador that he had spoken with the Chairman of the Constitutional Court. The Court had indicated it would cancel provisions of the budget-busting social standards law on constitutional grounds, according to Poroshenko, but only after the presidential election.

¶4. (C) Poroshenko conceded that President Yushchenko had refused to sign the LOI for political reasons. Even though the President otherwise had "no influence" over economic policy, Poroshenko had called Yushchenko from Washington to brief him on his December 10 meeting with the Secretary and had asked him to consider accommodating the IMF.

¶5. (C) In any case, Poroshenko argued, Yushchenko's signature would be meaningless, since there was no prospect of the Rada adopting an IMF-compliant budget before the election. (Comment: With this statement, Poroshenko may have been attempting to deflect criticism of the President's refusal to sign the LOI. However, the IMF would have considered disbursing at least a partial fourth tranche had Yushchenko signed the LOI and had the Cabinet of Ministers re-submitted a draft 2010 budget. With a presidential signature, the IMF would have waived the requirement to pass the 2010 budget. End comment.)

¶6. (C) Poroshenko suggested that a partial IMF disbursement would be adequate for Ukraine's budget, gas, and debt payment needs. Additionally, an IMF disbursement would also free up contingent loan offers from the EBRD, World Bank, and the European Investment Bank. Poroshenko said the IMF's Lipsky had suggested getting a "bridge loan" from some other source to pull the country through the immediate crisis. Shaking his head, Poroshenko told the Ambassador that, without any monies forthcoming, the \$12 billion disbursed so far by the IMF would have been "wasted." (Note: Poroshenko's calculations likely include three tranches of the IMF's Stand-By Arrangement, as well as roughly \$2 billion transferred in IMF Special Drawing Rights. End note.)

GLOOMY ON FINANCES

¶7. (C) Although Ukraine could probably pay its gas bill in January, it would likely not be able to do so in February, according to Poroshenko. External debt had grown in 2010 but remained modest overall. The Foreign Minister said there was a real possibility of loan defaults threatening the already fragile banking system. This would affect not just Ukrainian banks, he said. December revenues for the government were abysmally low, reflecting low business profits and general credit problems throughout the economy. VAT arrears were a major and growing concern. The Foreign Minister admitted

that he did not have a complete read on government finances, as acting Finance Minister Umanskiy had not assented to his request for details.

¶18. (C) Poroshenko said he told Lipsky that even a limited disbursement to cover gas and other foreign debts would be enough to save Ukraine from massive defaults. Lipsky had replied that Ukraine's external debt could be financed out of NBU reserves. Poroshenko commented that this would over-expose state-owned banks to particular borrowers, since such banks are the only institutions that can legally receive central bank disbursements. Poroshenko pointed to current exposure by state-owned banks to Naftogaz, which he said was already dangerous and threatened the stability of the banking system.

CEYLA TO BE REPLACED

¶19. (C) Poroshenko informed the Ambassador that IMF interlocutors had indicated Ceyla Pazarbasioglu was being replaced as Ukraine mission director. The Foreign Minister expressed concern that this would hamper the IMF's engagement with Ukraine.

COMMENT

¶10. (C) Poroshenko had been tasked by Prime Minister Tymoshenko to ask Lipsky whether Ukraine could be included on the agenda of the IMF's next board meeting (ref B). Based on what we heard separately from IMF resident representative Max Alier (ref A), Poroshenko's request was likely rebuffed by Lipsky, further underscoring the firm line the IMF has taken on Ukraine. Reaching out to the Ambassador, Poroshenko was clearly seeking an ally on the IMF loan. Yet, he made pains to show he was not taking sides in the dispute among Ukraine's presidential candidates, focusing instead on the country's dire predicament that he said would affect both current authorities and their successors.

TEFFT